

Nippon Shikizai, Inc.
Summary of Financial Results for the Fiscal Year Ended February 28, 2015
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the fiscal year ended February 28, 2015. Please refer to the contents of the report disclosed below

Consolidated Financial Results

- Net sales: 7,389 million yen (1.2% increase from the previous period)
- Operating income: -209 million yen (—)
- Ordinary income: -271 million yen (—)
- Net income: -235 million yen (Net income of 89 million yen in the previous period)

Summary of Consolidated Operating Results

The Japanese economy in the consolidated fiscal year ended February 28, 2015 showed signs of recovery in corporate earnings and employment conditions in the backdrop of the fiscal policy and monetary easing of the Japanese monetary authority. However, due to the impact from the consumption tax rate increase implemented in April 2014 and drastic currency exchange fluctuation, the overall Japanese economy remained at a standstill.

On the other hand, economic conditions overseas remain uncertain on the whole. In the US, consumption and employment continued to steadily increase. The European economy, however, has not yet attained a full-scale recovery although it is overall on the track to gradual recovery. Economic growth also slowed in Asia and emerging nations.

Under these economic conditions, the Group is developing new formulas and technologies and carrying out one-stop solution business on a global level utilizing its product development and technological capabilities. It is also focusing on improving productivity and further upgrading its quality control system.

Accordingly, consolidated net sales for the Group in the consolidated fiscal year under review increased when compared to the previous year thanks to steadily increasing orders from domestic customers. However, income was down when compared to the previous year due to an increase in expenses associated with operating the new factory in Tsukuba and forward investment for further strengthening our quality control system.

Segment Business Information by Region

(Japan)

The domestic cosmetics OEM market is growing modestly on the back of an expansion of outsourcing by cosmetics manufacturers and new comers from outside the cosmetics industry.

However, according to a report entitled “Yearbook of Current Production Statistics” (data accumulated from January to December, 2014) published by the Ministry of Economy, Trade and Industry, the number and value of shipments for cosmetics in the domestic cosmetics market slightly increased compared to the previous fiscal year, however, due to the impact from the consumption tax hike, the transition of consumer needs to low-priced products became significant.

Under such market environment, in the Company's cosmetics business, orders of foundation, lipsticks, powders and other products increased compared with the previous year, and net sales grew

thanks to steadily increasing orders from domestic customers. However, income was down due to increased expenses for operating the new factory in Tsukuba including depreciation and forward investment for further strengthening our quality control system in addition to a stagnation of orders from overseas customers.

(France)

The economy in Europe, where THEPENIER PHARMA INDUSTRIE S.A.S (hereafter referred to as “THEPENIER”) is located, has not yet attained the full-scale recovery although it is overall on the track to recovery due to the gradual recovery in personal consumption along with the improvement in employment.

Under such market environment, in THEPENIER, while sales of skincare products and hygiene products steadily grew, the large production order for medicine related product that was scheduled to start next fiscal year or later was moved forward, which contributed to sales. However, overall, net sales were slightly down on a local currency basis when compared to the previous year (although net sales grew in Japanese-yen-denominated terms, owing to the effects of a depreciating yen).

Outlook

For the next period, we forecast continued uncertainty in the business environment partly due to the drastic currency exchange fluctuation and downward swing factors in the economies of Europe and emerging nations although there are expectations for improved economic conditions in the backdrop of economic/financial policy.

In the next period, the Company expects to increase its sales turnover by enhancing its business development and research activity through reinforcing organizational structures, and to improve its profitability by carrying out measure to reduce expenses.

For the consolidated fiscal year, we forecast net sales of 7,721 million yen, operating income of 121 million yen, ordinary income of 52 million yen, and net income of 14 million yen.

(%: change in full year from the previous year or in 2nd quarter (cumulative) from the same period previous year)

	2nd quarter (cumulative) (increase/decrease)	Full year (increase/decrease)
Net Sales	3,769 million yen (Up 2.8%)	7,721 million yen (Up 4.5%)
Operating income	-27 million yen (—)	121 million yen (—)
Ordinary income	-62 million yen (—)	52 million yen (—)
Net income	-73 million yen (—)	14 million yen (—)
Net income per share	-16.94 yen	3.36 yen

【Appendix】
Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2014	At February 28, 2015
ASSETS		
Current Assets		
Cash and deposits	950,391	755,043
Notes and accounts receivable - trade	1,547,598	1,671,357
Merchandise and finished goods	461,004	571,784
Work in process	77,348	60,218
Raw materials and supplies	425,275	486,192
Deferred tax assets	80,639	63,956
Other	222,190	104,386
Allowance for doubtful accounts	-	(1,791)
Total Current Assets	3,764,447	3,711,145
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	5,695,778	6,133,352
Accumulated depreciation	(3,656,697)	(3,839,001)
Buildings and structures, net	2,039,081	2,294,351
Machinery, equipment and vehicles	2,988,062	3,317,604
Accumulated depreciation	(2,529,487)	(2,674,935)
Machinery, equipment and vehicles, net	458,574	642,669
Tools, furniture and fixtures	672,166	702,478
Accumulated depreciation	(570,117)	(602,849)
Tools, furniture and fixtures, net	102,049	99,628
Land	1,363,997	1,364,138
Construction in progress	13,158	1,619
Total Property, Plant and Equipment	3,976,861	4,402,407
Intangible Assets	257,903	255,714
Investments and Other Assets		
Investment securities	237,521	298,413
Deferred tax assets	-	17,110
Other	182,591	295,732
Allowance for doubtful accounts	(60,009)	(63,228)
Total Investments and Other Assets	360,103	548,026
Total Non-current Assets	4,594,868	5,206,149
Total Assets	8,359,315	8,917,294

(Thousands of yen)

	At February 28, 2014	At February 28, 2015
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	929,700	973,573
Short-term loans payable	1,511,012	1,932,991
Current portion of bonds	99,700	-
Lease obligations	50,455	84,479
Accounts payable - other	455,942	380,736
Income taxes payable	44,747	-
Provision for bonuses	48,517	51,540
Provision for product warranties	12,000	-
Other	572,998	362,057
Total Current Liabilities	3,725,074	3,785,379
Non-current Liabilities		
Long-term loans payable	2,294,792	2,899,477
Lease obligations	166,763	299,465
Deferred tax liabilities	14,173	-
Provision for retirement benefits	88,069	-
Provision for directors' retirement benefits	150,090	150,090
Net defined benefit liability	-	107,666
Other	51,306	37,034
Total Non-current Liabilities	2,765,195	3,493,733
Total Liabilities	6,490,270	7,279,112
NET ASSETS		
Shareholders' Equity		
Capital stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	418,032	139,148
Treasury shares	(2,150)	(2,150)
Total Shareholders' Equity	1,750,486	1,471,602
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	65,364	103,521
Deferred gains (losses) on hedges	(2,622)	(879)
Foreign currency translation adjustment	55,816	63,937
Total Accumulated Other Comprehensive Income	118,559	166,579
Total Net Assets	1,869,045	1,638,182
Total Liabilities and Net Assets	8,359,315	8,917,294

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 28, 2014	Fiscal year ended February 28, 2015
Net Sales	7,302,269	7,389,896
Cost of Sales	6,074,805	6,455,835
Gross Profit	1,227,464	934,060
Selling, General and Administrative Expenses	1,081,050	1,143,634
Operating Income (loss)	146,413	(209,574)
Non-operating Income:		
Interest income	50	570
Dividend income	5,895	5,398
House rent income	2,655	2,485
Foreign exchange gains	19,828	-
Other	8,388	8,000
Total Non-operating Income	36,818	16,455
Non-operating Expenses:		
Interest expenses	63,796	76,067
Other	2,726	1,994
Total Non-operating Expenses	66,523	78,062
Ordinary Income (Loss)	116,708	(271,181)
Extraordinary Income:		
Gain on sales of non-current assets	-	461
Subsidy income	-	14,038
Total Extraordinary Income	-	14,499
Extraordinary Losses:		
Loss on retirement of non-current assets	122	1,050
Loss on litigation	-	21,057
Other	-	5,500
Total Extraordinary Losses	122	27,607
Income (loss) before Income Taxes and Minority Interests	116,586	(284,289)
Income taxes - current	44,571	8,439
Refund of income taxes	(19,989)	(27,959)
Income taxes for prior periods	-	6,889
Income taxes - deferred	2,579	(35,901)
Total Income Taxes	27,160	(48,533)
Income (Loss) before Minority Interests	89,425	(235,755)
Net Income (Loss)	89,425	(235,755)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 28, 2014	Fiscal year ended February 28, 2015
Income (loss) before minority interests	89,425	(235,755)
Other comprehensive income		
Valuation difference on available-for-sale securities	30,875	38,156
Deferred gains (losses) on hedges	2,614	1,742
Foreign currency translation adjustment	138,068	8,120
Total other comprehensive income	171,558	48,019
Comprehensive income	260,984	(187,735)
(Breakdown)		
Comprehensive income attributable to owners of parent	260,984	(187,735)
Comprehensive income attributable to minority interests	-	-

(3) Consolidated Statement of Changes in Equity

Fiscal year ended February 28, 2014

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	552,749	781,854	371,734	(2,150)	1,704,188
Changes of items during period					
Dividends of surplus			(43,127)		(43,127)
Net income			89,425		89,425
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	46,297	-	46,297
Balance at end of current period	552,749	781,854	418,032	(2,150)	1,750,486

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	34,489	(5,236)	(82,251)	(52,998)	1,651,189
Changes of items during period					
Dividends of surplus					(43,127)
Net income					89,425
Net changes of items other than shareholders' equity	30,875	2,614	138,068	171,558	171,558
Total changes of items during period	30,875	2,614	138,068	171,558	217,856
Balance at end of current period	65,364	(2,622)	55,816	118,559	1,869,045

Fiscal year ended February 28, 2015

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	552,749	781,854	418,032	(2,150)	1,750,486
Changes of items during period					
Dividends of surplus			(43,127)		(43,127)
Net loss			(235,755)		(235,755)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	(278,883)	-	(278,883)
Balance at end of current period	552,749	781,854	139,148	(2,150)	1,471,602

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	65,364	(2,622)	55,816	118,559	1,869,045
Changes of items during period					
Dividends of surplus					(43,127)
Net loss					(235,755)
Net changes of items other than shareholders' equity	38,156	1,742	8,120	48,019	48,019
Total changes of items during period	38,156	1,742	8,120	48,019	(230,863)
Balance at end of current period	103,521	(879)	63,937	166,579	1,638,182

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2014	Fiscal year ended February 28, 2015
Cash Flows from Operating Activities:		
Income (loss) before income taxes and minority interests	116,586	(284,289)
Depreciation	319,500	409,755
Increase (decrease) in provision for bonuses	4,066	3,023
Increase (decrease) in provision for contingent loss	(2,606)	-
Increase (decrease) in provision for loss on order received	(1,000)	-
Increase (decrease) in provision for product warranties	12,000	(12,000)
Increase (decrease) in provision for retirement benefits	(13,671)	(85,234)
Increase (decrease) in net defined benefit liability	-	103,140
Increase (decrease) in provision for directors' retirement benefits	(22,820)	-
Increase (decrease) in allowance for doubtful accounts	(23,210)	4,303
Interest and dividend income	(5,945)	(5,969)
Interest expenses	63,796	76,067
Loss (gain) on sales of non-current assets	-	(461)
Loss on retirement of non-current assets	122	1,050
Subsidy income	-	(14,038)
Loss on litigation	-	21,057
Decrease (increase) in notes and accounts receivable - trade	248,304	(118,692)
Decrease (increase) in inventories	75,610	(150,404)
Increase (decrease) in notes and accounts payable - trade	37,476	40,180
Increase (decrease) in accrued consumption taxes	(10,738)	123,922
Increase (decrease) in accounts payable - other	21,098	(11,812)
Other	(63,781)	45,814
Subtotal	754,788	145,412
Interest and dividend income received	5,947	5,438
Interest expenses paid	(63,625)	(77,693)
Proceeds from subsidy income	-	14,038
Payments for loss on litigation	-	(21,057)
Income taxes (paid) refund	(3,114)	(61,566)
Net Cash Provided by Operating Activities	693,995	4,571

(Thousands of yen)

	Fiscal year ended February 28, 2014	Fiscal year ended February 28, 2015
Cash Flows from Investing Activities:		
Payments into time deposits	(135,000)	(338,109)
Proceeds from withdrawal of time deposits	135,000	255,000
Purchase of property, plant and equipment	(563,204)	(905,271)
Proceeds from sales of property, plant and equipment	-	688
Purchase of intangible assets	(27,954)	(12,015)
Purchase of investment securities	(2,408)	(2,419)
Net Cash Used in Investing Activities	(593,567)	(1,002,127)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	(169,165)	393,989
Proceeds from long-term loans payable	1,600,000	1,457,034
Repayments of long-term loans payable	(845,877)	(842,143)
Redemption of bonds	(200,000)	(99,700)
Cash dividends paid	(43,218)	(43,034)
Repayments of lease obligations	(33,192)	(60,512)
Proceeds from sales and leasebacks	-	43,854
Other	(37,373)	(56,827)
Net Cash Provided by Financing Activities	271,173	792,659
Effect of Exchange Rate Change on Cash and Cash Equivalents	7,154	3,949
Net Increase (Decrease) in Cash and Cash Equivalents	378,755	(200,946)
Cash and Cash Equivalents at Beginning of Period	435,442	814,198
Cash and Cash Equivalents at End of Period	814,198	613,251

(5) Segment Information***Performance by Business Segment***

Year Ended February 28, 2015 (March 1, 2014 to February 28, 2015)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
Sales to outside customers	6,040,825	1,349,070	7,389,896	-	7,389,896
Internal sales and transfers between segments	159,283	1,952	161,235	(161,235)	-
Total	6,200,109	1,351,022	7,551,131	(161,235)	7,389,896
Segment loss	(128,477)	(73,968)	(202,446)	(7,127)	(209,574)
Segment assets	7,746,194	2,125,100	9,871,295	(954,000)	8,917,294
Other items					
Depreciation	321,453	88,301	409,755	-	409,755
Increase of property, plant and equipment and intangible assets	226,098	579,880	805,978	-	805,978

Notes: 1. The adjustment amount of negative 7,127 thousand yen in segment loss is an elimination of transactions between segments.

2. The adjustment amount of negative 954,000 thousand yen in segment asset is a reflection of consolidation goodwill between segments.

3. The segment loss is adjusted with operating loss on the consolidated financial statements.